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CENTRAL INTELLIGENCE AGENCY

INFORMATION REPORT

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COUNTRY	Hungary	REPORT NO.	<input type="text"/> 25X1
SUBJECT	New Economic Program as It Affects Foreign Trade	DATE DISTR.	15 February 1954
	25X1	NO. OF PAGES	3
DATE OF INFO.	<input type="text"/>	REQUIREMENT NO.	<input type="text"/> 25X1
PLACE ACQUIRED	<input type="text"/>	REFERENCES	

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1. Based on the 1939 figures, Hungarian industrial production has increased three-fold, while the agricultural production is barely equal to 1939, and in certain items is even below 1938 levels. The Hungarian Government recognizes that this imbalance must be rectified during the next two to three years.
2. It is intended that basic changes in the past economic policy will be made to increase the living standards of the Hungarian people. In 1953 46 percent of the national income was used for consumer goods; in 1954 it is intended that 70 percent will be so diverted. In order to effect this policy, it is evident that investments will have to be increased in the industries producing consumer goods and agricultural products for internal consumption, to the detriment of heavy industrial production.
3. It is the intention of the Hungarian Government during 1954 to increase trade with the West. The participation of capitalist countries in Hungarian foreign trade has decreased since 1949, both as regards Hungarian imports and exports. Overall Hungarian agricultural exports have decreased during this period, although machinery exports have increased, primarily as the result of trade with the Satellites; there has been scarcely any noticeable increase in machinery exports to capitalist countries. Thus, trade representatives of the Hungarian Government have been instructed to seek out and explore the possibilities of increasing machinery imports from Hungary by their host nations. These instructions cover not only Hungarian export sales, but also admit to compensation deals. As regards compensation deals for the immediate future, however, the trade representatives have been cautioned to arrange for deals whereby the customer is willing to wait for the Hungarian goods, while also willing to forward his commodity immediately.

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Cash purchases are to be avoided, and in respect to outright purchases of desired imports, long-term (six to nine months) credit is to be sought. The Hungarian Government believes that the world market situation is such that it favors the acceptance by the capitalist countries of this long-term credit policy being initiated by the Hungarian Government, through offering a market for goods that are moving slowly. The Hungarian Government is also advocating payment for sales of Hungarian goods through customer accounts in third countries, in order to give the appearance to the host country that Hungary is extending credit. For these reasons all trade representatives have been instructed to prepare industrial profiles of their host countries, on the aggregate basis of which the Government will determine to which branches of the industrial economy future investments will be applied in order to satisfy the most favorable export opportunities. It is also expected that the trade representatives will propose modernization of those exportable goods he feels require it to meet the demands of the host country, and to comment on what goods are presently in greater demand than Hungarian exports now satisfy; they are also to comment on the future sales possibilities of goods not now produced for export by Hungary, and samples of such marketable goods may be forwarded to Budapest, as appropriate. If this item is in production in Hungary, it is required that the trade representative comment on the quantity and value of the good which is marketable. To this end they have also been advised to investigate the local, prevailing credit conditions and establish in which categories of goods it is most necessary to offer the host country credit arrangements; this analysis is to be submitted by individual good, giving an estimate of the length of credit term to be anticipated in each case.

4. The Hungarian Government wishes to increase its trade with the capitalist countries, as it expects to have more export goods in 1954 than in 1953. An increase in exportable agricultural products is, however, only expected for the fourth quarter of 1954, and the annual exports of agricultural products are furthermore expected to be less in 1954 than in 1953. It is suggested, however, that the commercial representatives be alert to any export possibilities for such minor agricultural items as have heretofore not been exported. The gap between 1953 and anticipated 1954 agricultural exports will probably be filled by means of re-exports manipulations and minor agricultural items.
5. The Hungarian Government anticipates the creation of a "purchasing agency" to ease some of the problems experienced in agriculture exports, which agency will have the responsibility of securing the necessary agricultural products for export. This agency will be empowered to make necessary production contracts with the farmers and also to establish the prices at which these goods will be sold by the farmers. In the future, furthermore, the Ministries of Foreign and Internal Trade, and Agriculture will share the responsibility for insuring a stockpile of agricultural products sufficient to satisfy the planned exports.
6. The Hungarian Government has instructed its trade representatives abroad that industrial exports of both light and heavy industry must be increased in 1954. In addition to the heavy industrial goods exported to date, it is intended to export machinery and complete plants, such as power plants, rolling stock and vegetable oil and other food processing plants, in order to obtain a more favorable volume of foreign exchange. It is recognized that defective quality in exported industrial goods has had an influence on Hungarian trade. Overseas trade representatives have been encouraged

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to survey and report on complaints over defective goods with a view to determining the cause of the fault. In order to eliminate such quality defects, the wage system in plants producing goods for export is to be based on the quality of production. The workers of the Quality Control Section (MEO or Minőség Ellenőrző Osztály) in these plants will be chosen from those best qualified in their specialty, and will accordingly be better paid. Norms are to be reviewed. Replacement parts production is to be increased. Certain work methods which were discarded for simplification's sake will be reinstated. Modernization committees which will coordinate with the Ministry of Foreign and Internal Trade will be established in the industries. Possibilities will be opened up for the manufacture of new prototypes.

7. As regards imports into Hungary, the Government recognizes the necessity for obtaining goods which will support its intention to raise the living standards of the Hungarian people. Among the goods required will be light industrial raw materials (cotton, jute, leather) and luxury consumer items like tea and coffee. The Hungarian Government views the capitalist world market condition as favorable to the attainment of these goods on the Hungarian Government's terms (long-term credits), as the Government views it as a buyer's market.
8. The Ministry of Foreign and Internal Trade is anxious to receive all patent and trade market announcements, as well as all other documentary material on new goods, from abroad which the ministry's representatives consider significant in the light of the new policy. The Government is also urging that foreign business and appropriate government officials be encouraged to visit Hungary to examine her industry as individuals at their own expense, except in the case of government officials and official delegations.

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